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FOREIGN EXPERIENCE A GUIDE TO CURRENCY REFORM

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As Governor Hughes has admirably stated in a recent address before the Civic Forum in New York, "The quality of the administration of local officers lies with the citizens of the community. They will be good or bad as the public insists on the former or is content with the latter." So it is with our currency problem. It lies with us whether or not we shall have a sane, practical and intelligent currency system. The great difficulty at present appears to be an overzealousness on the part of everyone to offer some panacea for the present unsatisfactory monetary condition. That the present crisis is not wholly due to our perverted and immobile monetary system is possibly true, at the present time the crisis might in a great measure have been mitigated if we had got our own house in order. Until we have a stable and elastic currency system we will be constantly subjected from time to time to the present acute and humiliating financial conditions like those which now confront us. Fortunately the present crisis has fully opened the eyes of the entire country to the importance of some currency legislation, and has convinced the people—not Wall Street, but the West and South as well—that some method must be found to prevent a recurrence of the present acute and distressing crisis and depression. Our national banking system worked fairly well during the war period, but the panics of '73, '90 and '93 have awakened us from our dream, and have brought home to us sharply the need of some elastic and responsive currency system.

Congress has not been able to enact as yet any permanent plan of relief, and this has been chiefly due to two causes, first, the fact that our legislators have not as yet given sufficient time and thought to an intelligent, scientific and responsive currency plan, and second, their inability to unite on any definite plan. The country now imperatively demands some intelligent relief.

We have had numerous tentative schemes offered; the Balti-

more plan, '97, the Carlisle and Fowler bills, the McCleary and Gage bills, the Monetary Commission Indianapolis Convention, '98 plan, and later the New York Chamber of Commerce and American Banking Association plan, '06. All these plans practically provide for asset currency, *i. e.*, the right to issue emergency currency based on a certain proportion of their bond-secured circulation, having first lien on the assets of the bank, subject to a tax to provide for any possible losses. The weakness of these last two plans has always appeared to lie in the fact that the graduated rate of interest paid is not sufficiently high to insure the rapid redemption in normal times, and also not sufficiently high tax rate to prevent the issue of notes in instances of urgent requirements. It is likely that some measure of relief would have been afforded to the country if any one of these plans had been in operation during our present crisis; at the same time it would serve only as a palliative and not as a cure.

There is truth in the statement of Lord Rothschild when he characterized this country as financially uncivilized in its banking methods.

M. Siegfried, Senator of France, my valued friend and an expert on financial questions, has only lately stated that the French may be reproached with a lack of the spirit of commercial enterprise which characterizes the Anglo-Saxon, but it must be recognized that in financial science they can give lessons to America which can profitably be guided by the counsels of eminent French financiers and bankers. Gentlemen, this is true and we may candidly make the confession.

The spectacle presented to-day by our currency to the civilized banking community of the world is simply shameful.

Emergency clearing-house certificates have been issued in nearly all large cities; cashiers' checks and scrips have been circulated to take the place of currency, and all devices imposed on the community to take the place of currency which has been hoarded. The United States Government in the person of Secretary Cortelyou has come to our assistance in the present juncture and has helped the situation by depositing nearly all treasury funds in the banks, and has also devised other measures of relief to prevent an actual cessation of business. He has ably fulfilled the task.

These measures only accentuate more pointedly that in order

to obviate such temporary provisions for relief measures some permanent, logical and intelligent plan must be thought out.

When confidence is shaken it is inevitable that the community will tend to hoard gold and currency. Such conditions are substantially unknown abroad. Crises and panics are of course possible everywhere; no monetary system can be devised to prevent a panic; but an intelligent and elastic banking system can always be relied on to keep off widespread disaster. It is true, gentlemen, that it is difficult to induce a community to depart from its old traditions, but the time has now come when we should be guided by such foreign systems as have been working satisfactorily for centuries, and which, in times of panics and stress, have fully met all expectations and conditions. I refer to some central banking system.

This is the system existing in France, England, Germany and in all European countries. It is needless to dwell on the methods and machinery of the central banks in European countries. Although not *owned* by their respective governments they are practically controlled in a moral sense as the government is represented in its board of directors and the governmental policy substantially rules. Flexibility and safety are the two essentials in currency problems, and the former is absolutely wanting in our present system.

The fact that the government bank was used by President Jackson for political purposes should not close our eyes to the importance of now re-establishing such a bank purged of many of its then evil features, and surrounded by reasonable safeguards and legislation. I do not propose to enter into any details as to the plan of a central bank and only give an outline. This central or government bank should be owned jointly by the government and the national banks. The Secretary of the Treasury and the Controller of the Currency should be represented on its board. The treasury funds should be deposited with the central bank, and the government bank should have power to issue notes in certain proportion to its gold reserve or capital. As it is likely that the sole right of such note issue would be opposed by our national banks, and any radical plan for a government bank would probably not pass Congress at present, an alternative plan has been admirably developed in an article lately published by Mr. Paul M. War-

burg, a banker in New York, under the title, "Plan of a Modified Central Bank." This appears to me the most practical of all plans yet suggested, as it provides for a government bank limited chiefly to transactions with the clearing houses of the various cities. The bank is to deposit funds with clearing houses and national banks against United States bonds and other approved security as well as commercial paper and bankers' bills with proper margins. The plan has the great advantage of providing additional currency, and the rate of interest to be fixed by the board and the banks would have been able to rediscount their paper and to obtain bank-notes to relieve the currency strain. Clearing-house certificates issued in different centers in times like the present make it well nigh impossible to arrange for transfers of money from one city to the other. Just now drafts on Philadelphia, Boston and other banks sent for collection are being returned on the plea that momentarily it is impossible to remit New York exchange. Each city issuing its own clearing-house certificates under the present abnormal conditions practically builds a Chinese wall against other centers.

There is no doubt in my mind that if we had a modified central banking system the forced closing of the Knickerbocker Trust Company could have been avoided as it could readily have hypothecated on the first day of its run 25,000,000 or more of its good securities with the central bank, and the heedless run on other trust companies would have been prevented.

At the time of the failure of the Leipziger Bank in Germany (an institution which had been grossly mismanaged by its directors, many of whom, by the bye, are now serving states prison sentences) there was a run on one of the largest banks in Germany. This bank turned over some 75,000,000 Rmx. of discount, *i. e.*, commercial and bankers' endorsed three and six months' bills, to the Reichsbank, which in turn, furnished the funds and the run ceased at once.

The Bank of France has been shipping gold to England, taking in payment finance bills, and it is prepared to ship us gold against commercial bills, thus proving what substantial aid can be rendered by a central or government bank to other countries. What better proof is needed of the value of central or government banks in such emergencies. It is needless for me to dwell longer on

the importance of some such central bank, and I refer you to a careful study of Mr. Warburg's article which has been published in pamphlet form.

I realize that it is no easy task to educate our representatives in Washington to a radical change in our currency system, and any hasty action in providing a remedy which, to our lawyers and statesmen, may seem to be complicated and technical in its machinery will likely end in defeat. I fully realize that there are many well-intentioned citizens who are honestly opposed to any extension of credit-issuing powers by our national government. The country must now realize, however, that some currency measures must be enacted by Congress to mitigate the present evils. The emergency currency plan proposed by the New York Chamber of Commerce and modified by the Bankers' Association has been under discussion for a year. As already pointed out such a plan advocated by many students and business men has been strongly opposed by many thoughtful, practical financiers. Has the thought ever occurred to you, gentlemen, what would have been our present situation if this plan had gone into effect, and if all of the additional emergency circulation provided for by such plan had been issued during the summer months when money was stringent? Would we have been much better off now, and would we not be again appealing to Secretary Cortelyou for help?

I am pleased to note that Mr. Ridgely, the Controller of Currency, has just strongly declared that a large central bank of issue is the proper solution of this problem. Let us do our utmost to study it from an unbiased standpoint, and let us give our support to such plan as will give us permanent relief and place our currency system on a par with those of all civilized nations. Congress will shortly convene and many currency plans and bills will be introduced. It is the duty of every citizen to have the courage of his convictions, and not to temporize with the problem, and to bring pressure to bear on his representatives in Washington in order that an intelligent, rational and comprehensive currency bill shall be enacted. As our noble President, Abraham Lincoln, has said, "Let us dare to do our duty as we understand it." We will confer thereby a lasting blessing on our country.